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Hot Topic: Interest Rate Set at 12.25 Percent Effective July 1, 2007, on Delinquent Taxes Collected or Administered by the State of Tennessee

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MTAS Municipal Technical Advisory Service

*In cooperation with the
Tennessee Municipal League*

#144

HOT
topic

June 21, 2007

INTEREST RATE SET AT 12.25 PERCENT EFFECTIVE JULY 1, 2007, ON DELINQUENT TAXES COLLECTED OR ADMINISTERED BY THE STATE OF TENNESSEE

C. Richard Phebus, CPA, Finance and Accounting Consultant

The payment of taxes to local municipalities or to the state of Tennessee generally has a due date associated with it. If a taxpayer fails to pay the tax, or a portion thereof, on or before the due date the taxes are required to be paid, interest is added to the amount of tax due. The commissioner of revenue determines the interest rate for delinquent taxes collected or administered by the state of Tennessee. Sales tax and local business tax are examples of taxes falling into this category.

FORMULA RATE OF INTEREST

T.C.A. § 67-1-801 provides for the rate of interest to be charged on delinquent tax payments. This rate is called the “formula rate of interest” and is determined and set annually by the Tennessee commissioner of revenue. The rate effective July 1, 2007, through June 30, 2008, has been set at 12.25 percent. Municipalities should be aware that this rate is an increase from the current year (FY 2007).

DELINQUENT BUSINESS TAXES

Municipalities that levy and collect a local business tax should use the 12.25 percent rate

of interest to calculate any interest due from taxpayers who file their business tax returns after the due date. Taxes due accrue interest from the delinquent date until paid. For periods prior to the date of tax assessment, interest will accrue at the prevailing rate (12.25 percent) regardless of the taxable period involved (T.C.A. § 67-1-801(a)(2)).

ACTION REQUIRED BY MUNICIPAL FINANCE STAFF

Finance directors, city recorders, and other finance office personnel responsible for collecting local business tax should review the interest rate currently used for delinquent accounts and make the necessary adjustments to comply with the 12.25 percent rate effective July 1, 2007.

HISTORICAL INTEREST RATES

The following table, from the Tennessee Department of Revenue, is an historical presentation of the “formula rate of interest” as determined by the commissioner of revenue. This information is provided as supplemental data to give finance officials a perspective of interest rates and periods covered in prior years.

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**INTEREST RATE HISTORY
DELINQUENT TAXES OF ALL TYPES
T.C.A. § 67-1-801 (a)(1-3)**

| PERIOD COVERED | RATE |
|-----------------------|-------------|
| Through 9/30/1974 | 6.00% |
| 10/1/1974 - 7/31/1980 | 8.00% |
| 8/1/1980 - 6/30/1983 | 10.00% |
| 7/1/1983 - 6/30/1984 | 14.50% |
| 7/1/1984 - 6/30/1985 | 16.00% |
| 7/1/1985 - 6/30/1986 | 14.50% |
| 7/1/1986 - 6/30/1987 | 12.50% |
| 7/1/1987 - 6/30/1988 | 12.25% |
| 7/1/1988 - 6/30/1989 | 13.00% |
| 7/1/1989 - 6/30/1990 | 15.50% |
| 7/1/1990 - 6/30/1991 | 14.00% |
| 7/1/1991 - 6/30/1992 | 12.50% |
| 7/1/1992 - 6/30/1993 | 10.50% |
| 7/1/1993 - 6/30/1994 | 10.00% |
| 7/1/1994 - 6/30/1995 | 11.25% |
| 7/1/1995 - 6/30/1996 | 13.00% |
| 7/1/1996 - 6/30/1997 | 12.25% |
| 7/1/1997 - 6/30/1998 | 12.50% |
| 7/1/1998 - 6/30/1999 | 12.50% |
| 7/1/1999 - 6/30/2000 | 11.75% |
| 7/1/2000 - 6/30/2001 | 13.50% |
| 7/1/2001 - 6/30/2002 | 11.00% |
| 7/1/2002 - 6/30/2003 | 8.75% |
| 7/1/2003 - 6/30/2004 | 8.25% |
| 7/1/2004 - 6/30/2005 | 8.00% |
| 7/1/2005 - 6/30/2006 | 10.00% |
| 7/1/2006 - 6/30/2007 | 12.00% |
| 7/1/2007 - 6/30/2008 | 12.25% |

OTHER ASSISTANCE

Please contact your MTAS municipal or finance consultant for further assistance in this matter. You may also call the Tennessee Department of Revenue toll free at (800) 342-1003 or (615) 253-0600.

Visit the MTAS Web site at www.mtas.tennessee.edu or the Department of Revenue Web site at www.state.tn.us/revenue/ for further information.

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